

**CORNING MUNICIPAL UTILITIES
CORNING, IOWA**

**FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
WITH INDEPENDENT AUDITORS' REPORTS
Years ended December 31, 2006 and 2005**

**CORNING MUNICIPAL UTILITIES
CORNING, IOWA**

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**CORNING MUNICIPAL UTILITIES
CORNING, IOWA**

OFFICIALS

<u>NAME OF OFFICIAL</u>	<u>OFFICIAL TITLE</u>	<u>TERM EXPIRES</u>
Carl Patterson	Trustee	January 01, 2008
Richard Hogan	Trustee	January 01, 2007
Scott Akin	Trustee	January 01, 2010
Robert Cline	General Manager	Indefinite
Loretta Wetzel	Office Manager	Indefinite



INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Corning Municipal Utilities
Corning, Iowa

We have audited the accompanying balance sheets of Corning Municipal Utilities, a component unit of the City of Corning, Iowa, and the related statements of operations, fund equity, cash flows and indebtedness for the years ended December 31, 2006 and 2005. These financial statements are the responsibility of the Corning Municipal Utilities' management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as, evaluating the overall general purpose financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Corning Municipal Utilities as of December 31, 2006 and 2005, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued a report dated April 12, 2007, on our consideration of Corning Municipal Utilities' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. These reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 - 8 and 29 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the general purpose financial statements taken as a whole. The supplemental information included in Schedules 1 - 6 is presented for purposes of additional analysis and is not a required part of the general purpose financial statements. Such information has been subjected to the auditing procedures applied in our audits of the aforementioned financial statements and, in our opinion, is fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.

Kiesling Associates LLP

West Des Moines, Iowa
April 12, 2007

**CORNING MUNICIPAL UTILITIES
CORNING, IOWA**

MANAGEMENT'S DISCUSSION AND ANALYSIS

Corning Municipal Utilities provides this Management's Discussion and Analysis of its financial statements. The narrative overview and analysis of the financial activities is for the year ended December 31, 2006. We encourage readers to consider this information in conjunction with the Utilities' financial statements which follow.

2006 Financial Highlights

- Revenues of the Utilities' enterprise activities decreased 8%, or approximately \$235,000, from 2005 to 2006.
- Program expenses decreased 4%, or approximately \$100,000, from 2005 to 2006. Water, electric and gas expenses increased (decreased) approximately \$17,200, \$24,500 and \$(141,700), respectively.
- The Utilities' fund equity increased 0.06%, or approximately \$2,300, from December 31, 2005, to December 31, 2006. Of this amount, the net assets of water, electric, gas and agency funds increased (decreased) by approximately \$(41,800), \$211,500, \$(169,800) and \$2,400, respectively.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the Utilities' financial statements.

The Financial Statements consist of a Balance Sheet, Statement of Operations, Statement of Fund Equity, Statement of Cash Flows and the Statement of Indebtedness. These provide information about the activities of the Utilities as a whole and present an overall view of the Utilities' finances.

Notes to the Financial Statements provide additional information essential to a full understanding of the data provided in the financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison to the Utilities' budget for the year.

Other Supplementary Information provides detailed information about the separate funds. In addition, a schedule of plant for each fund provides details about the additions and retirements made during the year ended December 31, 2006.

**CORNING MUNICIPAL UTILITIES
CORNING, IOWA**

MANAGEMENT'S DISCUSSION AND ANALYSIS

REPORTING THE UTILITIES' FINANCIAL ACTIVITIES

Financial Statements

One of the most important questions asked about the Utilities' finances is, "Is the Utility as a whole better off or worse off as a result of the year's activities?" The Balance Sheet and the Statement of Operations report information which helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting and the economic resources measurement focus, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account, regardless of when cash is received or paid.

The Balance Sheet presents all of the Utilities' assets and liabilities, with the difference between the two reported as fund equity. Over time, increases or decreases in the Utilities' fund equity may serve as a useful indicator of whether the financial position of the Utilities is improving or deteriorating.

The Statement of Operations presents information showing how the Utilities' fund equity changed during the most recent year. All changes in fund equity are reported as soon as the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods.

The Balance Sheet and the Statement of Operations report one kind of activity:

- Business type activities include the waterworks, electrical and gas departments. These activities are financed primarily by user charges.

Fund Financial Statements

The Utilities has two kinds of funds:

- (1) Proprietary funds account for the Utilities' Enterprise Funds. Proprietary funds account for most of the Utilities' basic services. These funds report services for which the Utilities charges customers for the service it provides. Proprietary funds are reported in the Balance Sheet and the Statement of Operations. The Enterprise Funds include the Water, Electric and Gas Funds, each considered to be a major fund of the Utilities. The Utilities is responsible for ensuring the assets reported in these funds are used only for their intended purpose and by those to whom the assets belong.

The financial statements required for proprietary funds include a balance sheet, statement of operations, changes in fund equity and a statement of cash flows.

- (2) Fiduciary funds account for the Utilities' Agency Funds. These are funds through which the Utilities accounts for billing and collection of the City of Corning's garbage and sewer fees.

The Utilities is responsible for ensuring assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The Utilities excludes these activities from the financial statements because it cannot use these assets to finance its operations.

The required financial statements for fiduciary funds include a statement of fiduciary fund equity and a statement of changes in fiduciary fund equity.

**CORNING MUNICIPAL UTILITIES
CORNING, IOWA**

MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL ANALYSIS

As noted earlier, fund equity may serve over time as a useful indicator of financial position. The analysis that follows focuses on the changes in the fund equity for business type activities.

Fund Equity	
December 31, 2006	
Current and other assets	\$ 3,300,525
Capital assets	<u>15,481,955</u>
Total assets	<u>18,782,480</u>
Long-term liabilities	12,603,973
Other liabilities	<u>2,550,587</u>
Total liabilities	<u>15,154,560</u>
Fund equity:	
Invested in capital assets, net of related debt	4,242,955
Restricted	58,116
Unrestricted	<u>(673,151)</u>
Total fund equity	<u>\$ 3,627,920</u>

Net assets of business type activities increased from 2005 by approximately \$2,250, or 0.06%. The largest portion of the Utilities' fund equity is invested in capital assets (e.g., land, buildings, infrastructure and equipment), less related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets. Restricted fund equity represents resources that are subject to withdrawal restrictions, constitutional provisions or enabling legislation on how they can be used. Unrestricted fund equity, the part of fund equity that can be used to finance day-to-day operations without constraints established by debt covenants, legislation or other legal requirements, is approximately \$(673,151) at the end of the year. The deficit is due to increased depreciation and interest expenses resulting from the construction of a new water treatment facility, new electrical generators, and the installation of new water mains and gas lines related to the ethanol plant. The Utilities expects this deficit to be eliminated in the future as the new ethanol facility comes on-line and starts using services.

**CORNING MUNICIPAL UTILITIES
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MANAGEMENT'S DISCUSSION AND ANALYSIS

INDIVIDUAL MAJOR FUND ANALYSIS

Proprietary Fund Highlights

The Water Fund, which accounts for the operation and maintenance of the Utilities' water system, ended 2006 with a \$938,767 fund equity balance compared to the prior year ending fund equity balance of \$980,581.

The Electric Fund, which accounts for the operation and maintenance of the Utilities' electrical distribution and generation systems, ended 2006 with a \$2,265,740 fund equity balance compared to the prior year ending fund equity balance of \$2,054,270.

The Gas Fund, which accounts for the operation and maintenance of the Utilities' natural gas system, ended 2006 with a \$365,297 fund equity balance compared to the prior year ending fund equity balance of \$535,139. The following are the major reasons for the changes in fund balances in the major proprietary funds from the prior year.

- The Water Fund saw increased maintenance and operations costs due to increased chemical costs for water treatment.
- The Gas Fund saw a large increase in the cost of purchased energy which also resulted in a large increase in gas services provided as a portion of the rate charged is variable in accordance with the market.
- The Utility began the installation of new water mains and gas lines relating to the operation of a new ethanol plant, which required obtaining financing. This resulted in increased interest expense for the water and gas funds.

Agency Fund Highlights

The Sewer Fund, which accounts for the billing and collection of the City of Corning's sewer system, ended 2006 with a \$46,273 fund equity balance compared to the prior year ending fund equity balance of \$45,872.

The Garbage Fund, which accounts for the billing and collection of the City of Corning's garbage collection system, ended 2006 with an \$11,843 fund equity balance compared to the prior year ending fund equity balance of \$9,799.

BUDGETARY HIGHLIGHTS

Over the course of the year, the Utilities did not amend its budget.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Utilities' capital assets include land, buildings and improvements, equipment, water distribution systems, electrical distribution systems, gas distribution systems and other infrastructure. Capital assets for business type activities totaled \$15,481,955 (net of accumulated depreciation) at December 31, 2006 and \$9,282,308 as of December 31, 2005. See to the financial statements for more information about the Utilities' capital assets.

**CORNING MUNICIPAL UTILITIES
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MANAGEMENT'S DISCUSSION AND ANALYSIS

CAPITAL ASSETS AND DEBT ADMINISTRATION (Continued)

The major capital outlays for business type activities during the year included engineering costs and installation related to new water mains and new gas lines in preparation for a new ethanol plant.

Long-Term Debt

At December 31, 2006 and 2005, the Utilities had \$11,239,000 and \$5,547,000, respectively, in total long-term debt outstanding for business type activities. Other obligations include compensated absences and unearned revenue. Additional information about the Utilities' long-term debt is presented in Note 5 to the financial statements.

ECONOMIC FACTORS BEARING ON THE UTILITIES' FUTURE

Several economic factors affected decisions made by the Utilities in setting its 2007 budget. Some of these factors included the plans for increased capacity needs for customers and rate increases planned for the future.

CONTACTING THE UTILITIES' MANAGEMENT

This financial report is designed to present our citizens, taxpayers, customers, investors and creditors with a general overview of the Utilities' finances and operating activities. If you have any questions or require additional information please contact the General Manager, Corning Municipal Utilities, 501 Benton Avenue, Corning, Iowa 50841.

FINANCIAL STATEMENTS

**CORNING MUNICIPAL UTILITIES
CORNING, IOWA**

Exhibit A

**BALANCE SHEETS
December 31, 2006 and 2005**

<u>ASSETS</u>	<u>2006</u>	<u>2005</u>
ELECTRIC PLANT IN SERVICE	\$ 4,698,243	\$ 3,079,808
Less accumulated depreciation	<u>1,752,521</u>	<u>2,189,837</u>
	2,945,722	889,971
Electric plant under construction	<u>-</u>	<u>1,814,029</u>
	<u>2,945,722</u>	<u>2,704,000</u>
 WATER PLANT IN SERVICE	 7,250,329	 7,244,577
Less accumulated depreciation	<u>1,007,743</u>	<u>816,234</u>
	6,242,586	6,428,343
Water plant under construction	<u>2,508,870</u>	<u>-</u>
	<u>8,751,456</u>	<u>6,428,343</u>
 GAS PLANT IN SERVICE	 751,259	 749,514
Less accumulated depreciation	<u>616,839</u>	<u>599,549</u>
	134,420	149,965
Gas plant under construction	<u>3,650,357</u>	<u>-</u>
	<u>3,784,777</u>	<u>149,965</u>
 RESTRICTED ASSETS		
Cash-security deposits	43,315	42,020
Special construction account	1,225,999	190,171
Water plant project	<u>64,059</u>	<u>1,181</u>
	<u>1,333,373</u>	<u>233,372</u>
 NONCURRENT ASSETS		
Unamortized debt issuance costs	199,399	101,301
Intangibles	<u>45,000</u>	<u>45,000</u>
	<u>244,399</u>	<u>146,301</u>
 CURRENT ASSETS		
Cash and cash equivalents	636,035	564,165
Temporary investments	490,000	690,000
Customer accounts receivable	17,542	21,365
Unbilled revenues	435,474	602,738
Other accounts receivable	22,759	14,875
Plant materials and operating supplies	107,419	105,302
Prepaid insurance	<u>13,524</u>	<u>16,838</u>
	<u>1,722,753</u>	<u>2,015,283</u>
 TOTAL ASSETS	 <u>\$ 18,782,480</u>	 <u>\$ 11,677,264</u>

The accompanying notes are an integral part of these financial statements.

**CORNING MUNICIPAL UTILITIES
CORNING, IOWA**

Exhibit A

**BALANCE SHEETS
December 31, 2006 and 2005**

<u>LIABILITIES AND FUND EQUITY</u>	<u>2006</u>	<u>2005</u>
FUND EQUITY		
Invested in capital assets, net of related debt	\$ 4,242,955	\$ 3,735,308
Fund balance-agency funds (restricted)	58,116	55,671
Unrestricted	<u>(673,151)</u>	<u>(165,318)</u>
	<u>3,627,920</u>	<u>3,625,661</u>
 LONG-TERM LIABILITIES		
Compensated absences	69,663	64,916
Unearned revenue	1,752,537	1,869,373
Long-term debt	<u>10,781,773</u>	<u>5,284,000</u>
	<u>12,603,973</u>	<u>7,218,289</u>
 CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS		
Customer deposits	<u>43,315</u>	<u>42,020</u>
 CURRENT LIABILITIES PAYABLE FROM CURRENT ASSETS		
Accounts payable	1,894,976	411,458
Advanced payments	155,069	116,836
Current portion of long-term debt	<u>457,227</u>	<u>263,000</u>
	<u>2,507,272</u>	<u>791,294</u>
 TOTAL LIABILITIES AND FUND EQUITY	 <u><u>\$ 18,782,480</u></u>	 <u><u>\$ 11,677,264</u></u>

The accompanying notes are an integral part of these financial statements.

**CORNING MUNICIPAL UTILITIES
CORNING, IOWA**

Exhibit B

**STATEMENTS OF OPERATIONS
Years ended December 31, 2006 and 2005**

	<u>2006</u>	<u>2005</u>
OPERATING REVENUES		
Electric service	\$ 1,211,479	\$ 1,205,891
Water service	568,791	504,638
Gas service	934,048	1,224,480
SIRWA revenue	<u>116,836</u>	<u>131,470</u>
	<u>2,831,154</u>	<u>3,066,479</u>
OPERATING EXPENSES		
Purchased energy	1,352,554	1,511,443
Operations and maintenance	519,434	553,769
Depreciation	320,162	289,757
Customer accounts expense	84,433	71,841
Administrative and general	326,323	279,303
General taxes	<u>8,223</u>	<u>4,939</u>
	<u>2,611,129</u>	<u>2,711,052</u>
OPERATING INCOME	<u>220,025</u>	<u>355,427</u>
OTHER INCOME (EXPENSE)		
Income from merchandising and custom work, net	1,447	810
Interest income	79,438	32,335
Other income charges	<u>(41,603)</u>	<u>(54,635)</u>
	<u>39,282</u>	<u>(21,490)</u>
INCOME BEFORE FIXED CHARGES	<u>259,307</u>	<u>333,937</u>
FIXED CHARGES		
Interest	353,407	166,839
Interest during construction	<u>(93,914)</u>	<u>(14,449)</u>
	<u>259,493</u>	<u>152,390</u>
NET INCOME (LOSS)	<u>\$ (186)</u>	<u>\$ 181,547</u>

The accompanying notes are an integral part of these financial statements.

**CORNING MUNICIPAL UTILITIES
CORNING, IOWA**

Exhibit C

**STATEMENTS OF FUND EQUITY
Years ended December 31, 2006 and 2005**

	Invested in Capital Assets, Net of Related Debt	Fund Balance Agency Funds	Unrestricted	Total
Balance at December 31, 2004	\$ 3,790,908	\$ 56,949	\$ (402,465)	\$ 3,445,392
Add:				
Net income, enterprise funds	(55,600)	-	237,147	181,547
Net change in agency funds	<u>-</u>	<u>(1,278)</u>	<u>-</u>	<u>(1,278)</u>
Balance at December 31, 2005	3,735,308	55,671	(165,318)	3,625,661
Add:				
Net income, enterprise funds	507,647	-	(507,833)	(186)
Net change in agency funds	<u>-</u>	<u>2,445</u>	<u>-</u>	<u>2,445</u>
Balance at December 31, 2006	<u>\$ 4,242,955</u>	<u>\$ 58,116</u>	<u>\$ (673,151)</u>	<u>\$ 3,627,920</u>

The accompanying notes are an integral part of these financial statements.

**CORNING MUNICIPAL UTILITIES
CORNING, IOWA**

Exhibit D

**STATEMENTS OF CASH FLOWS
Years ended December 31, 2006 and 2005**

	<u>2006</u>	<u>2005</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	\$ (186)	\$ 181,547
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Sewer and garbage billings less amount remitted to City	2,445	(1,278)
Depreciation	325,833	299,128
Unearned revenues	(116,836)	7,555
Changes in assets and liabilities:		
(Increase) Decrease in:		
Receivables	163,203	(223,871)
Prepayments	3,314	859
Materials and supplies	(2,117)	1,494
Unamortized debt issuance costs	(98,098)	(29,616)
Increase (Decrease) in:		
Accounts payable and deposits	78,934	97,395
Compensated absences	4,747	2,993
Net cash provided by operating activities	<u>361,239</u>	<u>336,206</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Change in restricted assets	<u>(1,100,001)</u>	<u>(199,598)</u>
Net cash used in non-capital financing activities	<u>(1,100,001)</u>	<u>(199,598)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital expenditures	(5,027,739)	(2,077,111)
Cost of removal, net of salvage	(53,629)	1,871
Repayment of long-term debt	(263,000)	(158,000)
Proceeds from long-term borrowing	5,955,000	2,002,920
Net cash provided by (used in) capital and related financing activities	<u>610,632</u>	<u>(230,320)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of temporary investments	1,130,000	3,525,000
Purchase of temporary investments	(930,000)	(3,430,000)
Net cash provided by investing activities	<u>200,000</u>	<u>95,000</u>
Net Increase in Cash and Cash Equivalents	71,870	1,288
Cash and Cash Equivalents at Beginning of Year	<u>564,165</u>	<u>562,877</u>
Cash and Cash Equivalents at End of Year	<u>\$ 636,035</u>	<u>\$ 564,165</u>

The accompanying notes are an integral part of these financial statements.

**CORNING MUNICIPAL UTILITIES
CORNING, IOWA**

Exhibit E

**STATEMENT OF INDEBTEDNESS
Year ended December 31, 2006**

<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>	<u>Balance Beginning of Year</u>	<u>Issued During Year</u>	<u>Redeemed During Year</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>	<u>Interest Due and Unpaid</u>
Revenue Bonds									
Water	4/16/2002	3.00 %	<u>\$ 4,005,080</u>	<u>\$ 3,547,000</u>	<u>\$ -</u>	<u>\$ (163,000)</u>	<u>\$ 3,384,000</u>	<u>\$ 103,877</u>	<u>\$ 8,344</u>
Electric	5/15/2005	3.35-4.8%	<u>\$ 2,000,000</u>	<u>\$ 2,000,000</u>	<u>\$ -</u>	<u>\$ (100,000)</u>	<u>\$ 1,900,000</u>	<u>\$ 81,328</u>	<u>\$ 6,805</u>
Water	8/31/2006	8.25%	<u>\$ 1,505,000</u>	<u>\$ -</u>	<u>\$ 1,505,000</u>	<u>\$ -</u>	<u>\$ 1,505,000</u>	<u>\$ 10,692</u>	<u>\$ 30,956</u>
Gas	8/31/2006	8.50%	<u>\$ 4,450,000</u>	<u>\$ -</u>	<u>\$ 4,450,000</u>	<u>\$ -</u>	<u>\$ 4,450,000</u>	<u>\$ 32,572</u>	<u>\$ 94,303</u>

The accompanying notes are an integral part of these financial statements.

**CORNING MUNICIPAL UTILITIES
CORNING, IOWA**

**NOTES TO FINANCIAL STATEMENTS
December 31, 2006 and 2005**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Corning Municipal Utilities is a component unit of the City of Corning whose funds are reported under separate cover utilizing a fiscal year ending June 30. The City of Corning is a political subdivision of the State of Iowa located in Adams County. It was first incorporated in 1854 and operates under the Home Rule provisions of the Constitution of Iowa. The Utilities' board of trustees operates the City Utilities by the authority of Chapters 384 and 388 of the Code of Iowa. Corning Municipal Utilities provides water, electric and gas services on a user charge basis to the general public and other governmental units within Adams County, Iowa.

Basis of Presentation

The accounting policies of Corning Municipal Utilities conform to accounting principles generally accepted in the United States of America. Management uses estimates and assumptions in preparing its financial statements. Those estimates and assumptions affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities.

Government-wide Financial Statements - The Balance Sheet and the Statement of Operations report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which are supported by property tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Balance Sheet presents the Utilities' nonfiduciary assets and liabilities, with the difference reported as fund equity. Fund equity is reported in three categories.

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

Restricted fund equity results when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted fund equity consists of net assets not meeting the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Operations demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest restricted to meeting the operational or capital requirements of a particular function. Other items not properly included among program revenues are reported instead as general revenues.

**CORNING MUNICIPAL UTILITIES
CORNING, IOWA**

**NOTES TO FINANCIAL STATEMENTS
December 31, 2006 and 2005**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (Continued)

The accounting records of Corning Municipal Utilities are maintained in accordance with the particular uniform system of accounts for each separate utility function. The electric department uses the system as prescribed by the Federal Energy Regulatory Commission, while the water and gas departments' system is published by the National Association of Regulatory Utility Commissioners.

Reporting Entity

The financial statements include enterprise and agency funds of Corning Municipal Utilities, a component unit of the City of Corning, Iowa.

Fund Accounting

The accounts of the Utilities are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts which comprise its assets, liabilities, fund balances, revenues and expenditures or expenses. The various funds and their designated purposes are as follows:

Proprietary Funds

Enterprise Funds - Enterprise Funds are utilized to finance and account for the acquisition, operation and maintenance of governmental facilities and services that are supported by user charges. The Enterprise Funds include electric, water and gas operations.

Fiduciary Funds

Agency Funds - Agency Funds are used to account for assets held by the Utilities as an agent for individuals, private organizations, certain jointly governed organizations, other governmental units and other funds. Agency Funds are custodial in nature, assets equal liabilities, and do not involve measurement of results of operations. The Agency Funds include sewer and garbage service monies collected and held by the Utilities as an agent for the City of Corning, Iowa, which operates these facilities.

Measurement Focus and Basis of Accounting

Proprietary Funds are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

**CORNING MUNICIPAL UTILITIES
CORNING, IOWA**

**NOTES TO FINANCIAL STATEMENTS
December 31, 2006 and 2005**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus and Basis of Accounting (Continued)

In reporting the financial activity of its proprietary funds, the Utilities applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Utilities' Enterprise Funds are charges to customers for sales and services. Operating expenses for Enterprise Funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The assets and liabilities of the Agency Funds are accounted for using the modified accrual basis of accounting.

Restricted Assets

Funds set aside for payment of Enterprise Fund revenue notes are classified as restricted assets since their use is restricted by applicable note indentures. Other restricted assets include customer deposits restricted for application to unpaid customer accounts or for refund to customers and cash set aside for construction.

Cash Equivalents

All highly liquid investments with a maturity of three months or less at the time of purchase are considered cash equivalents.

Customer Accounts and Unbilled Usage

Accounts receivable are recorded in the Enterprise Funds at the time the service is billed. Unbilled usage for service consumed between periodic scheduled billing dates is estimated and is recognized as revenue in the period in which the service is provided.

Temporary Investments

Investments with a maturity of less than one year are considered temporary investments and are carried at cost.

Plant Materials and Operating Supplies

Plant materials and operating supplies are valued at the lower of cost or market with cost determined by the average cost method.

**CORNING MUNICIPAL UTILITIES
CORNING, IOWA**

**NOTES TO FINANCIAL STATEMENTS
December 31, 2006 and 2005**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Long-Lived Assets

The Utilities would provide for impairment losses on long-lived assets when no longer cost of service regulated, indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than the assets' carrying amount. Based on current conditions, management does not believe any of its long-lived assets are impaired.

Utility Plant

Additions to Utility plant in service are recorded at original cost, including the capitalized costs of certain payroll taxes, employee benefits and interest incurred during the construction period. Renewals and betterment of units of property are charged to utility plant in service. When utility plant is retired, its cost is removed from the asset account and charged against accumulated depreciation, together with removal cost less any salvage realized. Repairs and renewals of minor items of property are included in maintenance expense. No gains or losses are recognized in connection with routine retirements of depreciable property.

Depreciation of utility plant is computed on the straight-line method by application of rates, based upon the estimated service lives of the various classes of depreciable property. These estimates are subject to change in the near term.

Compensated Absences

The Utilities' employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the financial statements. The compensated absences liability has been computed based on rates of pay in effect at December 31, 2006.

Revenue Recognition

The Utilities recognizes revenues related to the Enterprise Funds when earned regardless of the period in which they are billed.

Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended December 31, 2006, disbursements did not exceed the budgeted amount.

NOTE 2. DEPOSITS AND INVESTMENTS

The Utilities' deposits at December 31, 2006, were entirely covered by federal depository insurance or by the Iowa State Sinking Fund for banks and savings associations in accordance with Chapter 12C of the Code of Iowa. This Chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

**CORNING MUNICIPAL UTILITIES
CORNING, IOWA**

**NOTES TO FINANCIAL STATEMENTS
December 31, 2006 and 2005**

NOTE 2. DEPOSITS AND INVESTMENTS (Continued)

The Utilities are authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The Utilities' investments are categorized to give an indication at the level of risk assumed by the Utilities at year-end. The Utilities' investments are all category 1, which means that the investments are all insured or registered or the securities are held by the Utilities or its agents in the Utilities' name.

The Utilities had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3, as amended by Statement No. 40.

Investments are stated at fair value.

The Utilities' deposits and investments at December 31, 2006, are shown below:

Change and petty cash fund	\$ 300
Checking accounts	1,822,382
Certificates of deposit	490,000
Savings accounts	<u>146,726</u>
Total cash, cash equivalents and temporary investments	<u>\$ 2,459,408</u>

NOTE 3. CAPITAL ASSETS

The provisions for depreciation for 2006 and 2005 are \$325,833 and \$299,128, respectively, of which \$5,671 and \$9,371, respectively, were distributed through a clearing account. The depreciation provision less the amount cleared was charged to expense against the following operations:

	<u>2006</u>	<u>2005</u>
Electric	\$ 114,067	\$ 73,227
Water	185,667	198,562
Gas	<u>20,428</u>	<u>17,968</u>
	<u>\$ 320,162</u>	<u>\$ 289,757</u>

**CORNING MUNICIPAL UTILITIES
CORNING, IOWA**

**NOTES TO FINANCIAL STATEMENTS
December 31, 2006 and 2005**

NOTE 3. CAPITAL ASSETS (Continued)

At December 31, 2006 and 2005, utility plant in service included the following major classifications:

	<u>2006</u>	<u>2005</u>
Electric Plant in Service:		
Production Plant	\$ 2,918,659	\$ 1,608,268
Transmission Plant	419,199	102,024
Distribution Plant	1,168,751	1,186,282
General Plant	191,634	183,234
Subtotal	<u>4,698,243</u>	<u>3,079,808</u>
Water Plant in Service:		
Source of Supply and Pumping Plant	5,604,899	5,604,899
Distribution Plant	1,439,590	1,433,838
General Plant	205,840	205,840
Subtotal	<u>7,250,329</u>	<u>7,244,577</u>
Gas Plant in Service:		
Transmission and Distribution Plant	621,300	619,555
General Plant	129,959	129,959
Subtotal	<u>751,259</u>	<u>749,514</u>
Total utility plant in service	<u>\$ 12,699,831</u>	<u>\$ 11,073,899</u>

The individual rates applied to the average cost of the several classifications of depreciable utility plant produced the following composite depreciation rates for the years ended December 31, 2006 and 2005:

	<u>2006</u>	<u>2005</u>
Electric	3.06 %	2.50 %
Water	2.64 %	2.75 %
Gas	2.30 %	2.47 %

NOTE 4. INTANGIBLES

During 2003, the Utilities entered into an agreement with MidAmerican Energy to purchase six customers at a cost of \$45,000.

The Utilities annually assesses its recorded balances of goodwill and indefinite lived intangible assets for impairment. As a result, the Utilities determined no impairment needed to be recorded for the years ended December 31, 2006 and 2005.

**CORNING MUNICIPAL UTILITIES
CORNING, IOWA**

**NOTES TO FINANCIAL STATEMENTS
December 31, 2006 and 2005**

NOTE 5. BONDS PAYABLE

Annual debt service requirements to maturity for Water and Electric Revenue Bonds are as follows:

Year Ending December 31	Revenue Bonds Water Issued April 16, 2002		Revenue Bonds Electric Issued May 15, 2005		Revenue Bonds Water Issued August 31, 2006		Revenue Bonds Gas Issued August 31, 2006	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$ 168,000	\$ 98,912	\$ 105,000	\$ 78,019	\$ 58,015	\$ 124,163	\$ 126,212	\$ 378,250
2008	173,000	93,797	110,000	74,335	123,307	116,884	268,745	361,930
2009	178,000	88,532	110,000	70,403	133,690	106,502	292,074	338,601
2010	183,000	83,117	115,000	66,210	144,947	95,245	317,427	313,247
2011	189,000	77,537	120,000	61,685	157,152	83,040	344,982	285,693
2012	195,000	71,777	125,000	56,845	170,384	69,808	374,929	255,746
2013	200,000	65,852	130,000	51,680	184,731	55,461	407,475	223,200
2014	206,000	59,762	135,000	46,180	200,286	39,906	442,846	187,829
2015	213,000	53,477	140,000	40,335	217,150	23,042	481,288	149,387
2016	219,000	46,997	150,000	34,025	115,338	4,758	523,067	107,608
2017	226,000	40,322	155,000	27,238	-	-	568,472	62,202
2018	232,000	33,452	160,000	20,070	-	-	302,483	12,855
2019	239,000	26,387	170,000	12,395	-	-	-	-
2020	247,000	19,097	175,000	4,200	-	-	-	-
2021	254,000	11,582	-	-	-	-	-	-
2022	262,000	3,893	-	-	-	-	-	-
	<u>\$ 3,384,000</u>	<u>\$ 874,493</u>	<u>\$ 1,900,000</u>	<u>\$ 643,620</u>	<u>\$ 1,505,000</u>	<u>\$ 718,809</u>	<u>\$ 4,450,000</u>	<u>\$ 2,676,548</u>

The Water Revenue Bonds were issued for the purpose of defraying the cost of constructing a new water plant facility. The bonds are payable solely from the income and proceeds of the Water Fund in accordance with the bond agreement. The proceeds of the Water Revenue Bonds shall be expended only for purposes which are consistent with the bond agreement. The bonds are not a general obligation of the Utilities, however, the debt is subject to the constitutional debt limitations of the Utilities.

The resolutions providing for the debt issuance of the water revenue notes include the following provisions:

- (a) The notes will only be redeemed from the future net revenues of the Water Fund activity and the bond holders hold a lien on the future earnings of the fund.
- (b) The proceeds shall be used for the sole purpose of constructing a new water treatment facility as approved in the project plan.

The Utilities is not required to establish a sinking or reserve account by the Water Revenue Bond resolution.

Of the funds received for the Water Revenue Bonds, all funds were advanced as of December 31, 2006.

**CORNING MUNICIPAL UTILITIES
CORNING, IOWA**

**NOTES TO FINANCIAL STATEMENTS
December 31, 2006 and 2005**

NOTE 5. BONDS PAYABLE (Continued)

The Electric Revenue Bonds were issued for the purpose of defraying the cost of constructing new generators. The bonds are payable solely from the income and proceeds of the Electric Fund in accordance with the bond agreement. The proceeds of the Electric Revenue Bonds shall be expended only for purposes which are consistent with the bond agreement. The bonds are not a general obligation of the Utilities, however, the debt is subject to the constitutional debt limitations of the Utilities.

The resolutions providing for the debt issuance of the electric revenue notes include the following provisions:

- (a) The notes will only be redeemed from the future net revenues of the Electric Fund activity and the bond holders hold a lien on the future earnings of the fund.
- (b) The proceeds shall be used for the sole purpose of constructing new generators as approved in the project plan.

The Utilities is required to establish a sinking or reserve account by the Electric Revenue Bond resolution and has done so in accordance with the agreement.

Of the funds received for the Electric Revenue Bonds, all funds were advanced as of December 31, 2006.

The Water Revenue Bonds were issued for the purpose of defraying the cost of installing new water mains to the ethanol plant. The bonds are payable solely from the income and proceeds of the Water Fund in accordance with the bond agreement. The proceeds of the Water Revenue Bonds shall be expended only for purposes which are consistent with the bond agreement. The bonds are not a general obligation of the Utilities, however, the debt is subject to the constitutional debt limitations of the Utilities.

The resolutions providing for the debt issuance of the water revenue notes include the following provisions:

- (a) The notes will only be redeemed from the future net revenues of the Water Fund activity and the bond holders hold a lien on the future earnings of the fund.
- (b) The proceeds shall be used for the sole purpose of installing new water mains to the industrial park as approved in the project plan.

The Utilities is required to establish a sinking or reserve account by the Water Revenue Bond resolution. The Utilities is not depositing any funds at this time because the ethanol plant is not yet in operation. It is anticipated when operations begin, payment will be caught up in accordance with that provision of the bond agreement.

Of the funds received for the Water Revenue Bonds, all funds were advanced as of December 31, 2006.

**CORNING MUNICIPAL UTILITIES
CORNING, IOWA**

**NOTES TO FINANCIAL STATEMENTS
December 31, 2006 and 2005**

NOTE 5. BONDS PAYABLE (Continued)

The Gas Revenue Bonds were issued for the purpose of defraying the cost of installing new gas lines to the ethanol plant from the main connection point. The bonds are payable solely from the income and proceeds of the Gas Fund in accordance with the bond agreement. The proceeds of the Gas Revenue Bonds shall be expended only for purposes which are consistent with the bond agreement. The bonds are not a general obligation of the Utilities, however, the debt is subject to the constitutional debt limitations of the Utilities.

The resolutions providing for the debt issuance of the water revenue notes include the following provisions:

- (a) The notes will only be redeemed from the future net revenues of the Gas Fund activity and the bond holders hold a lien on the future earnings of the fund.
- (b) The proceeds shall be used for the sole purpose of installing new water mains to the industrial park as approved in the project plan.

The Utilities is required to establish a sinking or reserve account by the Gas Revenue Bond resolution. The Utilities is not depositing any funds at this time because the ethanol plant is not yet in operation. It is anticipated when operations begin, payment will be caught up in accordance with that provision of the bond agreement.

Of the funds received for the Gas Revenue Bonds, all funds were advanced as of December 31, 2006.

NOTE 6. COMPENSATED ABSENCES

The Utilities' employees accumulate vacation and sick leave hours for subsequent use or for payment upon retirement. Upon retirement, the Utilities pay up to 160 hours of accumulated vacation and up to 720 hours of accumulated sick leave. Any vacation and sick leave accumulated is allowed to be taken while in the employment of the Utilities.

As of December 31, 2006 and 2005, the liability for accrued vacation and sick leave is \$69,663 and \$64,916, respectively. The amount expected to be paid from current resources is not significant.

NOTE 7. UNEARNED REVENUE

In conjunction with the construction of the new water treatment facility, the Utilities received \$2,336,716 from Southwestern Iowa Rural Water Association (SIRWA) related to future usage of the new water plant facility. As of December 31, 2006 and 2005, the amount unearned is \$1,752,537 and \$1,869,373, respectively. SIRWA does not possess any ownership rights in the water plant facility. Therefore, the payment received from them is being recognized as revenue over the period of repayment of the bonds used to purchase the new facility (20 years). During 2005, there was a true-up for final amounts remitted to the Utilities by SIRWA as final project costs were determined and agreed upon by both entities.

**CORNING MUNICIPAL UTILITIES
CORNING, IOWA**

**NOTES TO FINANCIAL STATEMENTS
December 31, 2006 and 2005**

NOTE 7. UNEARNED REVENUE (Continued)

The unearned revenue will be recognized as follows:

2007	\$	116,836
2008		116,836
2009		116,836
2010		116,836
2011		116,836
2012-2022		1,285,193

NOTE 8. PENSION AND RETIREMENT BENEFITS

Corning Municipal Utilities contributes to the Iowa Public Employees' Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the Utilities is required to contribute 5.75% of annual covered salary. Certain employees in special risk occupations and the Utilities contribute an actuarially determined contribution rate. Contribution requirements are established by State statute. The Utilities' contributions to IPERS for the three years ended December 31, 2006, 2005, and 2004, were \$20,370, \$19,603 and \$19,005 respectively, equal to the required contributions for each year.

NOTE 9. DEFERRED COMPENSATION PLAN

The Utilities offers its employees a deferred compensation plan as allowed by Internal Revenue Code Section 457. The plan allows the Utilities' employees to defer a portion of their current salary until future years. The employees become eligible to withdraw funds upon termination, retirement, death or unforeseeable emergency.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property or rights, are, until made available to the participant or other beneficiary, solely the property and rights of the Utilities, without being restricted to the provision of benefits under the plan, subject only to the claims of the Utilities' general creditors.

The Utilities is responsible for due care in managing the investments and the participant or beneficiary assumes the risk of loss from decreases in the value of plan assets.

**CORNING MUNICIPAL UTILITIES
CORNING, IOWA**

**NOTES TO FINANCIAL STATEMENTS
December 31, 2006 and 2005**

NOTE 10. RISK MANAGEMENT

Corning Municipal Utilities is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance coverage. The Utilities assume liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 11. CONCENTRATION OF CREDIT RISK

The Utilities grants credit to its customers, all of whom are located in the municipal service area.

NOTE 12. RELATED PARTY TRANSACTIONS

The Utilities had business transactions totaling \$357 between the Utilities and a Board member during the year ended December 31, 2006.

NOTE 13. COMMITMENTS AND CONTINGENCIES

The Utilities has entered into a purchase commitment with Montana-Dakota Utilities to install new gas lines to the ethanol plant from the point of connection. The contract with Montana-Dakota Utilities has a bid amount of approximately \$3,250,000. The total estimated cost of the project is approximately \$3,250,000 and will be completed during 2007. Of this total, approximately \$2,535,000 is included in gas plant under construction at December 31, 2006.

NOTE 14. SUPPLEMENTAL CASH FLOW INFORMATION

Accounts payable includes \$1,554,037 and \$109,925 at December 31, 2006 and 2005, respectively, relating to utility plant and equipment additions placed in service during 2006 and 2005.

REQUIRED SUPPLEMENTARY INFORMATION

**CORNING MUNICIPAL UTILITIES
CORNING, IOWA**

**Comparison of Receipts, Disbursements and Changes in Balances -
Actual to Budget (Cash Basis)
Year ended December 31, 2006**

	GAAP Basis Financial Statements	Adjustments	Adjusted to Cash Basis	Cash Basis Budget	Variance
Receipts					
Charges for services	\$ 2,831,154	\$ 91,577	\$ 2,922,731	\$ 2,675,000	\$ 247,731
Use of money and property	79,438	3,542	82,980	15,500	67,480
Miscellaneous	1,447	(9,121)	(7,674)	17,700	(25,374)
	<u>2,912,039</u>	<u>85,998</u>	<u>2,998,037</u>	<u>2,708,200</u>	<u>289,837</u>
Disbursements					
Cash	2,592,063	(44,154)	2,547,909	3,004,000	(456,091)
Noncash	320,162	(320,162)	-	N/A	-
	<u>2,912,225</u>	<u>(364,316)</u>	<u>2,547,909</u>	<u>3,004,000</u>	<u>(456,091)</u>
Excess of receipts over disbursements	(186)	450,314	450,128	(295,800)	745,928
Add (Reduce):					
Operating activities cash flow	358,980	(449,884)	(90,904)	N/A	
Salvage, net cost of removal	(53,629)	-	(53,629)	N/A	
Capital expenditures	(5,027,739)	-	(5,027,739)	N/A	
Debt financing activities	5,692,000	-	5,692,000	N/A	
Net payment of agency funds	2,445	(430)	2,015	N/A	
Net funds increase (decrease)	<u>971,871</u>	<u>-</u>	<u>971,871</u>	<u>(295,800)</u>	
Beginning funds January 1, 2006	<u>1,487,537</u>	<u>-</u>	<u>1,487,537</u>	<u>1,402,600</u>	
Ending funds December 31, 2006	<u>\$ 2,459,408</u>	<u>\$ -</u>	<u>\$ 2,459,408</u>	<u>\$ 1,106,800</u>	

**CORNING MUNICIPAL UTILITIES
CORNING, IOWA**

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION -
BUDGETARY REPORTING
Year ended December 31, 2006**

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end.

Formal and legal budgetary control is based upon 9 major classes of disbursements known as functions, not by fund or fund type. These 9 functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Fund and Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, there were no budget amendments.

OTHER SUPPLEMENTARY INFORMATION

**CORNING MUNICIPAL UTILITIES
CORNING, IOWA**

Schedule 1

**BALANCE SHEET BY DEPARTMENT
December 31, 2006**

ASSETS

	Electric	Water	Gas	Sewer	Garbage	Total
ELECTRIC PLANT IN SERVICE	\$ 4,698,243					\$ 4,698,243
Less accumulated depreciation	<u>1,752,521</u>					<u>1,752,521</u>
	<u>2,945,722</u>					<u>2,945,722</u>
WATER PLANT IN SERVICE		\$ 7,250,329				7,250,329
Less accumulated depreciation		<u>1,007,743</u>				<u>1,007,743</u>
		6,242,586				6,242,586
Water plant under construction		<u>2,508,870</u>				<u>2,508,870</u>
		<u>8,751,456</u>				<u>8,751,456</u>
GAS PLANT IN SERVICE			\$ 751,259			751,259
Less accumulated depreciation			<u>616,839</u>			<u>616,839</u>
			134,420			134,420
Gas plant under construction			<u>3,650,357</u>			<u>3,650,357</u>
			<u>3,784,777</u>			<u>3,784,777</u>
RESTRICTED ASSETS						
Cash-security deposits	15,180	4,165	23,970			43,315
Special construction account	15,437	-	1,210,562			1,225,999
Water plant project	<u>-</u>	<u>64,059</u>	<u>-</u>			<u>64,059</u>
	<u>30,617</u>	<u>68,224</u>	<u>1,234,532</u>			<u>1,333,373</u>
NONCURRENT ASSETS						
Unamortized debt issuance costs	31,500	89,512	78,387			199,399
Intangibles	<u>45,000</u>	<u>-</u>	<u>-</u>			<u>45,000</u>
	<u>76,500</u>	<u>89,512</u>	<u>78,387</u>			<u>244,399</u>
CURRENT ASSETS						
Cash and cash equivalents	346,717	127,909	111,409	\$ 39,812	\$ 10,188	636,035
Temporary investments	415,000	-	75,000	-	-	490,000
Customer accounts receivable	4,847	4,579	-	6,461	1,655	17,542
Unbilled revenues	151,091	71,054	213,329	-	-	435,474
Interfund receivable (payable)	275,005	(321,255)	46,250	-	-	-
Other accounts receivable	5,478	514	16,767	-	-	22,759
Plant materials and operating supplies	34,733	41,851	30,835	-	-	107,419
Prepaid insurance	<u>7,793</u>	<u>2,451</u>	<u>3,280</u>	<u>-</u>	<u>-</u>	<u>13,524</u>
	<u>1,240,664</u>	<u>(72,897)</u>	<u>496,870</u>	<u>46,273</u>	<u>11,843</u>	<u>1,722,753</u>
TOTAL ASSETS	<u>\$ 4,293,503</u>	<u>\$ 8,836,295</u>	<u>\$ 5,594,566</u>	<u>\$ 46,273</u>	<u>\$ 11,843</u>	<u>\$ 18,782,480</u>

See Accompanying Independent Auditors' Report

**CORNING MUNICIPAL UTILITIES
CORNING, IOWA**

Schedule 1

**BALANCE SHEET BY DEPARTMENT
December 31, 2006**

LIABILITIES AND FUND EQUITY

	Electric	Water	Gas	Sewer	Garbage	Total
FUND EQUITY						
Invested in capital assets, net of related debt	\$ 1,045,722	\$ 3,862,456	\$ (665,223)	\$ -	\$ -	\$ 4,242,955
Fund balance-agency funds	-	-	-	46,273	11,843	58,116
Unrestricted	<u>1,220,018</u>	<u>(2,923,689)</u>	<u>1,030,520</u>	<u>-</u>	<u>-</u>	<u>(673,151)</u>
	<u>2,265,740</u>	<u>938,767</u>	<u>365,297</u>	<u>46,273</u>	<u>11,843</u>	<u>3,627,920</u>
 LONG-TERM LIABILITIES						
Compensated absences	34,831	17,416	17,416			69,663
Unearned revenue	-	1,752,537	-			1,752,537
Long-term debt	<u>1,795,000</u>	<u>4,662,985</u>	<u>4,323,788</u>			<u>10,781,773</u>
	<u>1,829,831</u>	<u>6,432,938</u>	<u>4,341,204</u>			<u>12,603,973</u>
 CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS						
Customer deposits	<u>15,180</u>	<u>4,165</u>	<u>23,970</u>			<u>43,315</u>
 CURRENT LIABILITIES PAYABLE FROM CURRENT ASSETS						
Accounts payable	77,752	1,117,574	699,650			1,894,976
Advanced payments	-	116,836	38,233			155,069
Current portion of long-term debt	<u>105,000</u>	<u>226,015</u>	<u>126,212</u>			<u>457,227</u>
	<u>182,752</u>	<u>1,460,425</u>	<u>864,095</u>			<u>2,507,272</u>
 TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 4,293,503</u>	<u>\$ 8,836,295</u>	<u>\$ 5,594,566</u>	<u>\$ 46,273</u>	<u>\$ 11,843</u>	<u>\$ 18,782,480</u>

See Accompanying Independent Auditors' Report

**CORNING MUNICIPAL UTILITIES
CORNING, IOWA**

Schedule 2

**SCHEDULE OF INCOME AND FUND EQUITY BY DEPARTMENT
Year ended December 31, 2006**

	Electric	Water	Gas	Total (Memorandum Only)
OPERATING REVENUES				
Residential sales	\$ 475,128	\$ 415,900	\$ 456,806	\$ 1,347,834
Commercial sales	388,048	93,854	270,715	752,617
Public authority sales	337,501	47,071	203,800	588,372
SIRWA revenue	-	116,836	-	116,836
Other miscellaneous	10,802	11,966	2,727	25,495
	<u>1,211,479</u>	<u>685,627</u>	<u>934,048</u>	<u>2,831,154</u>
OPERATING EXPENSES				
Purchased energy	508,037	-	844,517	1,352,554
Operations and maintenance	167,783	312,920	38,731	519,434
Depreciation	114,067	185,667	20,428	320,162
Meter reading	11,593	9,373	8,226	29,192
Customer records and collections	13,039	7,148	15,243	35,430
Customer rebates	17,133	-	2,678	19,811
Total customer accounts expense	<u>831,652</u>	<u>515,108</u>	<u>929,823</u>	<u>2,276,583</u>
Administrative and general salaries	62,407	41,509	77,079	180,995
Office supplies and expense	5,383	5,100	7,456	17,939
Outside services employed	6,370	7,238	12,934	26,542
General insurance	18,062	14,417	6,388	38,867
General administration	25,224	17,984	18,772	61,980
Total general and administrative expense	<u>117,446</u>	<u>86,248</u>	<u>122,629</u>	<u>326,323</u>
Use tax	2,009	-	144	2,153
Property tax	6,070	-	-	6,070
Total general taxes	<u>8,079</u>	<u>-</u>	<u>144</u>	<u>8,223</u>
	<u>957,177</u>	<u>601,356</u>	<u>1,052,596</u>	<u>2,611,129</u>
OPERATING INCOME (LOSS)	<u>254,302</u>	<u>84,271</u>	<u>(118,548)</u>	<u>220,025</u>
OTHER INCOME (EXPENSE)				
Income from merchandising and custom work, net	(23)	1,436	34	1,447
Interest income	18,618	10,287	50,533	79,438
Other income charges	<u>(17,521)</u>	<u>(14,209)</u>	<u>(9,873)</u>	<u>(41,603)</u>
	<u>1,074</u>	<u>(2,486)</u>	<u>40,694</u>	<u>39,282</u>
INCOME (LOSS) BEFORE FIXED CHARGES	<u>255,376</u>	<u>81,785</u>	<u>(77,854)</u>	<u>259,307</u>
FIXED CHARGES				
Interest	81,328	145,204	126,875	353,407
Interest during construction	<u>(37,422)</u>	<u>(21,605)</u>	<u>(34,887)</u>	<u>(93,914)</u>
	<u>43,906</u>	<u>123,599</u>	<u>91,988</u>	<u>259,493</u>
NET INCOME (LOSS)	<u>211,470</u>	<u>(41,814)</u>	<u>(169,842)</u>	<u>(186)</u>
FUND EQUITY, JANUARY 1, 2006	<u>2,054,270</u>	<u>980,581</u>	<u>535,139</u>	<u>3,569,990</u>
FUND EQUITY, DECEMBER 31, 2006	<u>\$ 2,265,740</u>	<u>\$ 938,767</u>	<u>\$ 365,297</u>	<u>\$ 3,569,804</u>

See Accompanying Independent Auditors' Report

**CORNING MUNICIPAL UTILITIES
CORNING, IOWA**

Schedule 3

**SCHEDULE OF AGENCY FUND NET ASSETS
December 31, 2006**

	Agency Funds 12/31/2005	Billed	Collected	Paid	Agency Funds 12/31/2006
<u>ASSETS</u>					
Non-pooled cash:					
Sewer rental	\$ 38,261	\$ -	\$ 464,511	\$ (462,960)	\$ 39,812
Garbage collection	8,281	-	104,258	(102,352)	10,187
Total cash	<u>46,542</u>	<u>-</u>	<u>568,769</u>	<u>(565,312)</u>	<u>49,999</u>
Receivables:					
Sewer rental	7,611	467,837	(468,987)	-	6,461
Garbage collection	1,518	105,198	(105,060)	-	1,656
Total receivables	<u>9,129</u>	<u>573,035</u>	<u>(574,047)</u>	<u>-</u>	<u>8,117</u>
Net assets held in agency funds	<u>\$ 55,671</u>	<u>\$ 573,035</u>	<u>\$ (5,278)</u>	<u>\$ (565,312)</u>	<u>\$ 58,116</u>

See Accompanying Independent Auditors' Report

**CORNING MUNICIPAL UTILITIES
CORNING, IOWA**

Schedule 4

**SCHEDULE OF ELECTRIC PLANT
Year ended December 31, 2006**

	Balance December 31, 2005	Additions	Retirements	Balance December 31, 2006
Production Plant:				
Land	\$ 66,520	\$ -	\$ -	\$ 66,520
Structures and improvements	253,753	24,910	(130)	278,533
Fuel holders, producers and accessories	11,169	-	(528)	10,641
Generators	976,497	1,745,295	(456,488)	2,265,304
Accessory electric equipment	300,329	-	(2,668)	297,661
	<u>1,608,268</u>	<u>1,770,205</u>	<u>(459,814)</u>	<u>2,918,659</u>
Transmission Plant:				
Station equipment	71,428	317,175	-	388,603
Poles and fixtures	22,532	-	-	22,532
Overhead conductors and devices	8,064	-	-	8,064
	<u>102,024</u>	<u>317,175</u>	<u>-</u>	<u>419,199</u>
Distribution Plant:				
Poles, towers and fixtures	145,794	-	-	145,794
Overhead conductors and devices	313,845	-	-	313,845
Underground conduit	83,425	-	(14,084)	69,341
Underground conductors and devices	154,736	210	-	154,946
Line transformers	166,456	2,775	(9,223)	160,008
Services	165,614	996	-	166,610
Meters	116,002	1,795	-	117,797
Street lighting and signal system	40,410	-	-	40,410
	<u>1,186,282</u>	<u>5,776</u>	<u>(23,307)</u>	<u>1,168,751</u>
General Plant:				
Office furniture and equipment	26,136	-	-	26,136
Transportation equipment	110,349	26,000	(17,600)	118,749
Tools, shop and garage equipment	22,704	-	-	22,704
Laboratory equipment	724	-	-	724
Power operated equipment	18,317	-	-	18,317
Communication equipment	5,004	-	-	5,004
	<u>183,234</u>	<u>26,000</u>	<u>(17,600)</u>	<u>191,634</u>
	<u>\$ 3,079,808</u>	<u>\$ 2,119,156</u>	<u>\$ (500,721)</u>	<u>\$ 4,698,243</u>

See Accompanying Independent Auditors' Report

**CORNING MUNICIPAL UTILITIES
CORNING, IOWA**

Schedule 5

**SCHEDULE OF WATER PLANT
Year ended December 31, 2006**

	Balance December 31, 2005	Additions	Retirements	Balance December 31, 2006
Source of Supply and Pumping Plant:				
Land and land rights	\$ 142,438	\$ -	\$ -	\$ 142,438
Structures and improvements	3,986,457	-	-	3,986,457
Collection and impounding reservoir	76,493	-	-	76,493
Lakes, rivers and other intakes	74,778	-	-	74,778
Supply mains	303,128	-	-	303,128
Electronic pumping equipment	354,606	-	-	354,606
Pumping and treatment equipment	666,999	-	-	666,999
	<u>5,604,899</u>	<u>-</u>	<u>-</u>	<u>5,604,899</u>
Distribution Plant:				
Distribution system and standpipes	559,408	-	-	559,408
Transmission and distribution mains	710,934	1,401	-	712,335
Meters and customer premise equipment	124,363	4,351	-	128,714
Hydrants	39,133	-	-	39,133
	<u>1,433,838</u>	<u>5,752</u>	<u>-</u>	<u>1,439,590</u>
General Plant:				
Furniture and office equipment	44,475	-	-	44,475
Transportation equipment	48,690	-	-	48,690
Work equipment	6,690	-	-	6,690
Laboratory equipment	23,907	-	-	23,907
Power operated equipment	78,805	-	-	78,805
Communication equipment	3,273	-	-	3,273
	<u>205,840</u>	<u>-</u>	<u>-</u>	<u>205,840</u>
	<u>\$ 7,244,577</u>	<u>\$ 5,752</u>	<u>\$ -</u>	<u>\$ 7,250,329</u>

See Accompanying Independent Auditors' Report

**CORNING MUNICIPAL UTILITIES
CORNING, IOWA**

Schedule 6

**SCHEDULE OF GAS PLANT
Year ended December 31, 2006**

	Balance December 31, 2005	Additions	Retirements	Balance December 31, 2006
Transmission and Distribution Plant:				
Transmission mains	\$ 118,716	\$ 1,160	\$ -	\$ 119,876
Structures and improvements	45,378	-	-	45,378
Distribution mains	317,228	-	-	317,228
Measure and regulating station equipment	37,325	315	-	37,640
Meters	100,908	270	-	101,178
	<u>619,555</u>	<u>1,745</u>	<u>-</u>	<u>621,300</u>
General Plant:				
Work equipment	89,609	-	-	89,609
Furniture and office equipment	26,831	-	-	26,831
Transportation equipment	13,519	-	-	13,519
	<u>129,959</u>	<u>-</u>	<u>-</u>	<u>129,959</u>
	<u>\$ 749,514</u>	<u>\$ 1,745</u>	<u>\$ -</u>	<u>\$ 751,259</u>

See Accompanying Independent Auditors' Report



**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER
MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Trustees
Corning Municipal Utilities
Corning, Iowa

We have audited the financial statements of Corning Municipal Utilities as of and for the year ended December 31, 2006, and have issued our report thereon dated April 12, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements of Corning Municipal Utilities as of and for the year ended December 31, 2006, in accordance with auditing standards generally accepted in the United States of America, we considered Corning Municipal Utilities' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Utilities' internal control. Accordingly, we do not express an opinion on the effectiveness of the Utilities' internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies and other deficiencies that we consider to be material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected the entity's internal control. We consider the following deficiencies to be significant deficiencies in internal control:

- The Utilities has a limited number of personnel, as a result, it has utilized accounting assistance from another party to draft financial statements and assist with preparation of certain normal annual closing entries. While the Utilities reviews and approves the results of these activities, they recognize these activities meet the definition of a significant deficiency as defined above. The Utilities believes this approach provides a cost effective solution in light of their limited resources.
- While the Utilities has obtained an awareness of the implication of fraud in their business, they have yet to develop a formal antifraud program with stated control processes.
- Management and the board of trustees periodically review financial results of the Utilities. Governance of this process would be enhanced through a management discussion and analysis of key changes in elements of the financial statements from prior periods and budget. Also, periodic educational sessions with the board on key financial and regulatory topics, would enhance the board's ability to govern the Utilities.
- The Utilities has a limited number of personnel, as a result, it is difficult to segregate duties among employees to prevent an individual employee from handling duties which are incompatible.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe the following significant deficiencies constitute material weaknesses:

- The Utilities has a limited number of personnel, as a result, it has utilized accounting assistance from another party to draft financial statements and assist with preparation of certain normal annual closing entries. While the Utilities reviews and approves the results of these activities, they recognize these activities meet the definition of a significant deficiency as defined above. The Utilities believes this approach provides a cost effective solution in light of their limited resources.
- While the Utilities has obtained an awareness of the implication of fraud in their business, they have yet to develop a formal antifraud program with stated control processes.
- The Utilities has a limited number of personnel, as a result, it is difficult to segregate duties among employees to prevent an individual employee from handling duties which are incompatible.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Corning Municipal Utilities' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Comments involving statutory and other legal matters about the Utilities' operations for the year ended December 31, 2006, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Utilities. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials and employees of Corning Municipal Utilities and other parties to whom the Utilities may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Corning Municipal Utilities during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Kiesling Associates LLP

West Des Moines, Iowa
April 12, 2007

**CORNING MUNICIPAL UTILITIES
CORNING, IOWA**

**Schedule of Findings
December 31, 2006**

Part I: Summary of Independent Auditors' Results:

- (a) An unqualified opinion was issued on the financial statements.
- (b) Control deficiencies in internal control over financial reporting were disclosed by the audit of the financial statements, including significant control deficiencies.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.

**CORNING MUNICIPAL UTILITIES
CORNING, IOWA**

**Schedule of Findings
December 31, 2006**

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

CONTROL DEFICIENCIES:

II-A-06 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. This situation is not unusual for utilities your size.

Recommendation - In this situation, compensating controls may be available through strong trustee control over financial transactions and continuous monitoring of the Utilities' operations. We realize that with a limited number of office employees, segregation of duties is difficult. However, operating procedures should be reviewed to obtain the maximum internal control possible under the circumstances.

Response - We will consider this.

Conclusion - Response acknowledged.

**CORNING MUNICIPAL UTILITIES
CORNING, IOWA**

**Schedule of Findings
December 31, 2006**

Part III: Other Findings Related to Statutory Reporting:

- III-A-06 Official Depositories - A resolution naming official depositories has been approved by the Utilities. The maximum deposit amounts stated in the resolution were not exceeded during the year ended December 31, 2006.
- III-B-06 Certified Budget - Disbursements during the year ended December 31, 2006, were within the amounts budgeted in the Home and Community Environment Program. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.
- III-C-06 Questionable Disbursements - No expenditures that we believe may not meet the requirements of public purpose as defined in Attorney General's opinion dated April 29, 1979, were noted.
- III-D-06 Travel Expense - No expenditures of the Utilities' money for travel expenses of spouses of the Utilities' officials and/or employees were noted.
- III-E-06 Basis of Accounting - Corning Municipal Utilities uses a uniform accounting system and follows the accrual basis of accounting.
- III-F-06 Fixed Asset Record - A detailed record of fixed assets is currently being maintained.
- III-G-06 Bond Coverage - Surety bond coverage of the Utilities' officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- III-H-06 Trustee Minutes - No transactions were found that we believe should have been approved in the minutes but were not. The minutes records were examined and appeared to give a condensed, accurate account of business transacted by the Trustees and were published in accordance with the requirements of the Code of Iowa.
- III-I-06 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the Utilities' investment policy.

**CORNING MUNICIPAL UTILITIES
CORNING, IOWA**

**Schedule of Findings
December 31, 2006**

- III-J-06 Business Transactions - The business transactions, which came to our attention during the course of our audit between the Utilities and the Utilities' officials and/or employees, are detailed as follows:

<u>Name, Title, and Business & Connection</u>	<u>Description</u>	<u>Total Transactions</u>
Scott Akin (Trustee), Owner, Akin Building Center	Materials and supplies	\$ <u>357</u>

In accordance with Chapter 362.5(10) of the Code of Iowa, the transactions with Scott Akin (Trustee) do not appear to represent conflicts of interest since his store is the only store in town that carries certain supplies.

We recommend that the Utilities should consult legal counsel regarding this possible conflict of interest. Management stated that they would consult legal counsel regarding this matter. This response is deemed acceptable.

- III-K-06 Revenue and Electric Notes - The Utility has set aside funds as required by the water and electric revenue bond resolutions. Concerning the new revenue bonds issued in 2006, the Utility is not depositing any funds at this time since the ethanol plant is not yet in operation. It is anticipated when operations begin, payment will be caught up in accordance with that provision of these bond agreements.

- III-L-06 RFP Process - The audit was not awarded through the RFP process as required by the Code of Iowa for contracts entered into after May 31, 1989.

**CORNING MUNICIPAL UTILITIES
CORNING, IOWA**

STAFF

This audit was performed by:

Steven P. Harms, CPA, Partner
Jessica R. Richter, CPA, Supervising Senior Accountant
Julie K. Trichel, CPA, Senior Accountant